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RUEHAK/AMEMBASSY ANKARA PRIORITY 4136
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1948
RUEHKO/AMEMBASSY TOKYO PRIORITY 1813
RUEHIT/AMCONSUL ISTANBUL PRIORITY 2384
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 0852
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEHVEN/USMISSION USOSCE PRIORITY 2759
RUEAIIA/CIA WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
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SUBJECT: TURKMENISTAN: ENJOYING THE BENEFITS OF ITS
PARTNERSHIP WITH CHINA

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Few would disagree that China's relationship with Turkmenistan centers almost exclusively on its expanding energy partnership and trade. Regular political and economic engagement between the two states during President Berdimuhamedov's tenure in office suggests that his administration sees real benefit in expanding the relationship. Although China has provided an alternative path for natural gas exports, Turkmenistan will likely continue to view it as one of a multitude of key relationships that must be balanced carefully. END SUMMARY.

¶3. (SBU) The Chinese-Turkmen bilateral relationship is based on the unique benefits each state derives from it. Although the relationship primarily is focused on economic -- and especially energy -- development goals, there is little in the political or military relationship that holds the potential to divide the two states. Bolstered by a series of meetings, most recently on the fringes of the Olympics, the chemistry between Presidents Hu Jintao and Berdimuhamedov is basically good, according to Chinese DCM Li Hua. This is reflected by still-developing plans for President Hu to make a state visit to Turkmenistan in late 2008. With each country clearly aware of the value of the partnership, the relationship is cooperative and continuing to grow.

MUTUALLY ADVANTAGEOUS, WITHOUT THE BAGGAGE

¶4. (SBU) Nowhere is the symbiotic perspective more apparent than in the realm of energy. Turkmenistan's goals of exporting more gas, developing and diversifying its hydrocarbon infrastructure and pipeline diversification are making more progress with Chinese partners than any others. Wanting its share of profit from the natural gas field that straddles Turkmenistan's border with Uzbekistan (Uzbekistan is already extracting gas in the field) and runs through the right bank of the Amu Darya, Turkmenistan selected the one country to work the block that it both hoped could handle the complexities of drilling in a high-sulfur environment and

felt comfortable with, according to a Turkmengaz official. This decision has largely been successful: Turkmen officials have already successfully used their blossoming energy relationship with China -- and the prospective opening of a new export pipeline that will not run through Russia -- to extract a much higher price for its natural gas from Gazprom -- \$150 per thousand cubic meters in the second half of 2008.

Turkmenistan, in turn, understands China's need to bring more energy resources into its heartland to satisfy rapidly expanding industrial development. China's willingness to throw cash toward an arrangement to guarantee a source of natural gas for the foreseeable future has put energy at the center of the bilateral relationship.

TURKMENISTAN-CHINA PIPELINE MOVING FORWARD

15. (SBU) When the two countries signed a major pipeline agreement in July 2007, it set into motion a plan for hydrocarbon development in eastern Turkmenistan that seems unlikely to experience significant political or economic hurdles. In the deal, Turkmenistan got its wish of building an alternative gas pipeline going somewhere other than Russia. China National Petroleum Corporation (CNPC) and its subsidiaries received the only production sharing agreement (PSA) that Berdimuhamedov's government has so far given to a foreign company onshore. The pipeline ultimately is to deliver 30 bcm of natural gas per year to China, for a 30 year term. In a potentially new development, however, President Berdimuhamedov reportedly offered to Hu in Beijing to increase the volume of gas sales to 40 bcm per year. (Li had no comment on this report.) CNPC and its subsidiaries

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are now engaging in aggressive work to assess and develop gas resources in Lebap Province, and to build infrastructure to process and transport those resources when they are finally realized. A gas processing plant is due to be completed near Turkmenabat before the end of the year. Press sources and Li have continued to maintain that the Turkmenistan-China pipeline will be completed in 2009, although domestic competition for construction materials may push the completion date further off.

CHINA VALUABLE AS AN ECONOMIC PARTNER IN OTHER AREAS

16. (SBU) Chinese economic influence has been thriving in Turkmenistan in other regards as well. Starved for foreign investment, Turkmenistan has been more than willing to open the door for Chinese companies, who have benefited from the Chinese government's willingness to sweeten prospective deals with extremely low-interest (1%) loans. Huawei and ZTE, among others, increasingly have won lucrative tenders for non-hydrocarbon industrial development, as well as for the laying of fiber-optic cable and provision of Internet support technologies that will help modernize the telecommunications sector, to name a few. President Berdimuhamedov met with Lenovo in Beijing, which clearly is also hoping to cash in on Turkmenistan's push to join the 21st century. Taking China's growing commercial presence in new directions, construction company Capital Longhi has come to Turkmenistan, where it is currently building a few apartment buildings in hopes of eventually winning many more lucrative construction contracts. Turkmenistan's government has also shown favor to Chinese railway technology, which will help the country to refurbish and expand its railway transportation capacity.

17. (SBU) Turkmenistan has also benefited from educational assistance the Chinese government provided in past years, both for military and civilian educational scholarships. This year, Chinese officials indicated that they will increase the numbers of scholarships they will offer to Turkmen students, opening the door for as many as 60 students (30 civilian, and approximately 30 military) to study there next year. Li noted that there are also approximately 100 Turkmen students studying in China at their own expense.

RELATIONSHIP UNENCUMBERED BY POLITICAL ISSUES

¶8. (SBU) China and Turkmenistan appear to have few significant political differences, either bilaterally or in a regional sense. President Berdimuhamedov assured Chinese leaders upon his arrival in office that Turkmenistan would continue to support China's "one China" policy, and has voiced his agreement with China's views on separatist groups such as the Uighurs. The two countries signed a 10-year agreement to exchange information on regional terrorist organizations such as the East Turkestan terrorist group.

¶9. (SBU) Although Turkmenistan does not belong to the Shanghai Cooperation Organization, due to its status as a "permanently neutral" state, it nevertheless maintains a connection to the group. The two states also enjoy a bilateral relationship that lacks a substantive human rights component, which has long complicated Turkmenistan's economic partnership goals with EU member states and the United States. Commenting on this, Chinese DCM Li Hua said that "we both believe that it is important to feed people first; only when they have full bellies can we discuss human rights." Turkmenistan also sent a humanitarian shipment of clothing, bedding and other essential items to victims of the Sichuan earthquake.

¶10. (SBU) COMMENT: There is no question this relationship has been good for both parties. What remains to be seen, however, is the degree to which Turkmenistan's leaders will

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permit an increase in China's footprint here. While China's distance and lack of obvious political agenda up to now have made it an attractive partner, the Turkmen will not want to give China any more influence than they have given to any other of the countries seeking to expand their presence in Turkmenistan. Nevertheless, the former EBRD representative has expressed concern that the Turkmen may be getting in over their heads in terms of gas delivery commitments and acceptance of Chinese loans. END COMMENT.
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